



Office of Thrift Supervision
Department of the Treasury

West Region

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October 29, 2002

William J. Sweet, Jr., Esq.
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1440 New York Avenue, N.W.
Washington, D.C. 20005-2111

Re: Applications for a Federal Savings Bank Charter by Citibank (West), FSB, OTS No. 17941, and for Citibank (West), F.S.B. to Acquire (1) California Federal Bank, OTS No. 05099, (2) the California Branches of Citibank, FSB, OTS No. 01235, and (3) the Nevada Branches of Citibank (Nevada), N.A.
(OTS Application Tracking Nos. R5-2002-0185, R5-2002-0186, R5-2002-0187, and R5-2002-0190)

Dear Mr. Sweet:

Pursuant to 12 U.S.C. § 1464(e) and 12 C.F.R. § 552.2-1, Citigroup Inc. (Citigroup), and Citibank, Federal Savings Bank, San Francisco, California, (Citibank FSB) have applied to the Office of Thrift Supervision (OTS) to charter a federal savings bank, Citibank (West), FSB (Citibank-West). Under 12 U.S.C. §§ 1828(c) and 1815(d)(3), and 12 C.F.R. §§ 552.13 and 563.22, Citibank-West has filed applications with OTS: (i) to acquire California Federal Bank, San Francisco, California (CalFed) in a merger transaction; (ii) to acquire the California branch banking operations of Citibank FSB in a purchase and assumption transaction, and (iii) to acquire the Nevada retail branch offices and assets and liabilities of Citibank (Nevada), N.A. (Citibank-Nevada), Las Vegas, Nevada, a BIF-insured institution. Citibank-West also requests that it be permitted to retain the service corporation and operating subsidiaries of CalFed, and proposes to adopt a non-standard bylaw provision.

Upon consummation of the proposed transactions, Citigroup will hold all of the common stock of Citibank-West, a SAIF-insured federal savings bank, and will continue to hold all of the common stock of Citibank FSB and Citibank-Nevada.

The parties to the proposed transaction have filed several related applications with other federal banking regulators. Citigroup filed an application with the Board of Governors of the Federal Reserve System (FRB), under Sections 4(c)(8) and 4(j) of the Bank Holding Company Act of 1956, for the indirect acquisition of CalFed and Citibank-West. The FRB approved that application on October 28, 2002. In addition, the parties have filed an application with the Federal Deposit Insurance Corporation for insurance of accounts for Citibank-West.

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Public Comments

Notice of the transaction was published in accordance with applicable regulatory requirements. OTS received more than 60 comment letters in connection with these applications. Most of the comments pertained to the activities of Citigroup's subprime lending subsidiaries, particularly CitiFinancial Credit Company, Inc., Baltimore, Maryland. Almost all of the commenters objected to the proposed acquisition, and urged OTS to deny the applications, based on, among other things: (i) alleged predatory lending activities; (ii) alleged misconduct involving subprime lending activities; (iii) issues related to litigation involving the Federal Trade Commission; (iv) allegations of misconduct involving securities brokerage practices; (v) criticism of Citigroup's "referral" program; (vi) alleged violations of the Fair Housing Act; and (vii) allegations of deceptive and aggressive sales practices and consumer protection violations.

OTS held a formal meeting regarding the applications on July 8, 2002. Representatives of the OTS and FRB had observers in Daly City, Jersey City, and Washington for the OTS Formal Meeting. In addition, the FRB and OTS have shared comment letters with each other, to ensure that each regulator had as much information as possible in considering their respective applications, including additional questions to, and responses from, Citigroup related to the allegations in the comments.

Federal Charter Application

The Home Owners' Loan Act (HOLA) provides that OTS may grant a federal savings association charter only: (i) to persons of good character and responsibility; (ii) if, in OTS' judgment, a necessity for such savings association exists in the community to be served; (iii) if there is reasonable probability of the association's usefulness and success; and (iv) if the association can be established without undue injury to properly conducted existing local thrift and home financing institutions.¹ OTS regulations implementing the HOLA include the same standards, with the additional requirement that OTS consider whether the association will promote credit for housing consistent with the safe and sound operation of a federal savings association.

In addition, OTS regulations provide that an applicant for a federal thrift charter shall submit with its application a description of how it will meet its Community Reinvestment Act (CRA) objectives.² OTS takes this description into account when considering an application and may deny an application or condition approval on CRA grounds.

¹ Section 5(e) of the HOLA, 12 U.S.C. § 1464(e).
² 12 C.F.R. § 563e.29(b) (2002).

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Character and Responsibility

In its review of the subject applications, OTS has considered the character and responsibility of Citigroup, as well as the character and responsibility of Citibank-West's proposed management. OTS, as the primary federal regulator of Citibank FSB and Citicorp Trust Bank, fsb, has extensive experience regarding Citigroup. In general, OTS's experience in dealing with Citigroup management, as related to the supervision of the OTS-regulated entities, has been positive. We have found them to be generally cooperative, responsive, and competent. In addition, the character and responsibility of Citigroup is reflected in the performance and activities of the two OTS-regulated savings associations. In this regard, Citigroup's subsidiary savings associations are well-rated, well-managed, and well-capitalized.

Many, if not most, of the public comments are related to the character and responsibility of Citigroup. The statute and regulations governing OTS consideration of applications for a federal savings association charter do not set forth specific circumstances under which a federal charter application must be denied, but do provide that a federal charter may be granted only to persons of "good" character and responsibility.

The FRB, which is Citigroup's primary federal regulator, was required to make a similar determination with respect to the related application that the FRB approved. Specifically, Section 4(j) of the Bank Holding Company Act (BHC Act) requires, among other things, that the FRB must conclude that Citigroup is well-managed.

The FRB, in its approval of the related application, concluded that the financial and managerial resources of the organizations involved in the proposal are consistent with approval under Section 4 of the BHC Act, and that the various comments did not compel denial of the FRB application. However, the FRB in its approval did rely on commitments and undertakings by Citigroup, designed in part to address issues raised in the various comments.

Based on OTS' experience with Citigroup, the conclusions reached by the FRB in its approval order, and the undertakings Citigroup provided in connection with the FRB's approval, we conclude that Citigroup's character and responsibility is consistent with approval. However, OTS has concluded that it is appropriate to condition approval of the federal charter application on Citigroup complying with the commitments made to and conditions imposed by the FRB in connection with the application under Section 4 of the BHC Act.

With respect to the character and responsibility of Citibank-West, most of the management officials of Citibank-West have been management officials of Citibank FSB.

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Citibank FSB has been a well-rated and well-managed institution. In addition, OTS has considered the proposed management officials of Citibank-West who have not been associated with Citibank FSB, and has no objection to these individuals.

The supervisory record of Citibank FSB and Citicorp Trust Bank, fsb, during the time period covered by the allegations pertaining to its affiliates, demonstrates that any alleged affiliate practices have not had an adverse impact on the consumer compliance performance of Citibank FSB or Citicorp Trust Bank, fsb. Management of the two savings associations has ensured that adequate day-to-day management and appropriate controls are in place at the two savings associations so that the two savings associations have not engaged in inappropriate practices. Nor does the record establish a reason to believe that the alleged practices at affiliates will affect the operations of the two savings associations. Both Citibank FSB and Citicorp Trust Bank, fsb have demonstrated to their respective OTS regional supervisory authorities competent compliance management that readily respond to supervisory concerns and that maintain programs of compliance controls that are sufficiently functionally independent of their affiliates.

The limited allegations directed against the two savings associations do not give rise to a basis for denying the application based on character and responsibility. Allegations that Citibank FSB has application denial disparities across racial groups in certain urban markets is not sufficient to establish a barrier to approval of the application. OTS' review of the HMDA data and its examination of the fair lending practices of Citibank FSB found no evidence of substantive violations of fair lending laws or prohibited discrimination. Finally, allegations of predatory lending patterns at Citicorp Trust Bank, fsb, in materials submitted by commenters, were not substantiated, and conflict with the supervisory experience OTS has with this institution.

Necessity for Association, Undue Harm

With respect to the necessity for Citibank-West in the community, OTS has considered relevant demographic information, and the fact that the resulting institution will succeed to the existing businesses of established, successful insured institutions, and has concluded that approval is consistent with this factor. With respect to undue injury to properly conducted existing local thrift and home financing institutions, OTS has considered the competitiveness of the relevant market and Citibank-West's proposed market share in that market, and the fact that the resulting institution will succeed to the existing business of established, successful insured institutions, and has concluded that approval is consistent with this factor.

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Probability of Usefulness and Success

With respect to the probability of Citibank-West's usefulness and success, OTS has reviewed Citibank-West's business plan, historical data on Citibank FSB and CalFed, Citibank-West's proposed capital levels, and the competence of management. Citibank-West will assume the existing businesses of established, successful institutions and is projected to be well capitalized during the first three years after consummation of the proposed transactions. OTS concludes that Citibank-West's probability of usefulness and success is consistent with approval.

Provision of Credit for Housing

With respect to the provision of credit for housing, Citibank-West will have a significant presence as a mortgage lender. In addition, OTS has considered the manner in which Citibank-West will provide credit for housing, and concludes that Citibank-West will provide credit for housing consistent with safety and soundness standards.

Community Reinvestment Act

In accordance with 12 C.F.R. § 563e.29, OTS has reviewed the description of Citibank-West's plan to meet CRA objectives and the views expressed by interested parties as submitted in the comments previously referenced. Citibank-West will succeed to the operations of three depository institutions with "Outstanding" CRA ratings. OTS concludes from the record of past performance and the review of projected performance that Citibank-West has the capacity and commitment to maintain a solid record of helping to meet community credit needs as evaluated under the CRA and its implementing regulations.

Bank Merger Act Applications

The proposed merger of CalFed into Citibank-West and that institution's acquisition of parts of Citibank FSB and Citibank-Nevada require OTS approval under 12 U.S.C. § 1828(c) (section 18(c) of the Federal Deposit Insurance Act), and 12 C.F.R. §§ 552.13 and 563.22(a). Because Citibank-Nevada is BIF-insured and Citibank-West will be SAIF-insured, this component of the transaction must comply with 12 U.S.C. § 1815(d)(3). The approval standards for the merger and acquisitions are set forth at 12 U.S.C. §§ 1815(d)(3) and 1828(c), and 12 C.F.R. § 563.22(d) and Part 563e. Among the factors that OTS is required to consider in this case are the following:

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- (i) The capital level of any resulting savings association;
- (ii) The financial and managerial resources of the constituent institutions;
- (iii) The future prospects of the constituent institutions;
- (iv) The convenience and needs of the communities to be served;
- (v) The conformity of the transaction to applicable law, regulation, and supervisory policies;
- (vi) Factors relating to the fairness of and disclosure concerning the transaction;
- (vii) The competitive impact of the proposed transactions;
- (viii) The record of performance of each applicant savings institution under the CRA;
- (ix) The constituent institutions' records of compliance with money laundering statutes and regulations;
- (x) Whether the applications include all information required by OTS;
- (xi) The transaction must not result in the transfer of any insured depository institution's federal deposit insurance from one federal deposit insurance fund to the other federal deposit insurance fund; and,
- (xii) Whether the resulting depository institution will meet all applicable capital requirements upon consummation of the transaction.

The resulting institution will be "well-capitalized," as defined at 12 C.F.R. Part 565, after the proposed transactions are effected, and is projected to remain well-capitalized for at least the next three years. The managerial and financial resources and future prospects of the constituent institutions are sound.

The constituent institutions have overlapping branch operations in the following markets: Las Vegas, NV-AZ MSA; Los Angeles-Riverside-Orange County CMSA; and San Francisco-Oakland-San Jose CMSA. In none of these highly competitive markets will the resulting institution be among the three largest institutions, and the proposed transactions will have little effect on competition. In accordance with the Bank Merger Act, OTS requested

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competitive factors reports from the Department of Justice (DOJ) and the other Federal banking agencies. The DOJ's competitive factors report did not object to the transaction, and no anticompetitive issues were raised in response to our request to the other Federal banking agencies for a report on competitive factors. Accordingly, we conclude that the competitive impact of the transaction is consistent with approval.

Because the depository institutions have "Outstanding" CRA ratings and Citibank-West does not propose to reduce its service, OTS concludes that the merger and acquisition applications satisfy the convenience and needs and CRA criteria.

OTS has reviewed the constituent savings associations' records of compliance with money laundering statutes and regulations, and determined that their records in this area are consistent with approval.

The proposed transactions, including any agreements, were disclosed to CalFed's shareholders and other securities holders. The proposed transaction was approved by holders of 87 percent of the shares of CalFed's publicly held holding company, and OTS concludes that the transaction is fair and equitable. Based on the terms of Citibank-West's assumption of certain deposits of Citibank-Nevada, we conclude that the proposed transaction does not constitute a transfer of any insured depository institution's federal deposit insurance from one fund to the other.

Service Corporations and Operating Subsidiaries of the Resulting Institution

Citibank-West proposes to acquire all of the ownership interest in the service corporations and operating subsidiaries of CalFed. Like CalFed, it will have its home office in California and each of its first-tier service corporations will be incorporated in California. OTS has concluded that Citibank-West's proposed investments in the subsidiaries are permitted under 12 C.F.R. Part 559.

Bylaw Amendment

Citibank-West intends to adopt a charter and bylaws in compliance with the model charter and bylaws for a Federal stock institution, with the exception of a bylaw provision that has already been approved by the OTS for CalFed. That provision is applicable only if the common stock of the institution is held by one person or entity and the common stock represents at least 90% of the voting power of all securities entitled to vote at a meeting. OTS concludes that approval of the noted bylaw provision is appropriate.

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Conclusions

Based on the foregoing analysis, OTS concludes that each of the foregoing applications meets the applicable approval criteria. Accordingly, the foregoing applications are hereby approved, provided that the following conditions are complied with in a manner satisfactory to the West Regional Director, or his designee (Regional Director):

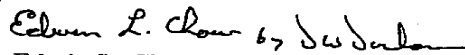
1. Citibank-West, CalFed, Citibank FSB, and their affiliates must receive all required regulatory and shareholder approvals prior to consummation of the transactions and submit copies of all such approvals to the Regional Director;
2. The proposed transactions must be consummated no earlier than 15 calendar days and no later than 120 calendar days after the date of this approval letter;
3. On the business day prior to the date of consummation of the proposed transactions, the chief financial officers of CalFed and Citibank FSB must certify in writing to the Regional Director that no material adverse changes have occurred with respect to the financial condition or operation of the respective entities as disclosed in the applications, since the date of the financial statements submitted with the applications. If additional information having an adverse bearing on any feature of the applications is brought to the attention of CalFed, Citibank FSB, or OTS since the date of the financial statements submitted with the applications, the transactions must not be consummated unless the information is presented to the Regional Director, and the Regional Director provides written non-objection to consummation of the transactions;
4. Citibank-West, CalFed, and Citibank FSB must advise the Regional Director in writing, within five (5) calendar days after the effective date of the proposed transactions: (a) of the effective date of the proposed transactions and (b) that the proposed transactions were consummated in accordance with all applicable laws and regulations, the applications and this decision;
5. A majority of Citibank-West's board of directors must not be individuals who are directors or employees of any affiliate of Citibank-West that engages in securities brokerage, securities dealing, investment company, or investment advisor activities (Securities Affiliate(s));
6. Citibank-West is prohibited from sharing common officers with any Securities Affiliate unless prior written approval is obtained from the Regional Director, which shall be based on criteria such as regulatory compliance, experience, character, integrity, and the ability to perform both duties;

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7. No later than five (5) calendar days from the date Citibank-West opens for business, Citibank-West and Citibank FSB must provide the Regional Director with a reconciliation of capital for Citibank-West and Citibank FSB, including their status relative to the provisions of 12 C.F.R. Part 565;
8. Citibank-West shall advise each accountholder whose withdrawable accounts would increase above \$100,000 as a result of the transaction of the effect on their insurance coverage no later than thirty (30) days after the effective date; and,
9. Citigroup will comply with all written undertakings entered into with the FRB, and all conditions of approval imposed by the FRB, related to the FRB's October 28, 2002 Order approving the application for the acquisition of CalFed and Citibank-West by Citigroup.

The Regional Director may extend any time period set forth herein for up to 120 calendar days for good cause.

Sincerely,



Edwin L. Chow
Deputy Regional Director

cc: Teresa Brady, FDIC
Stephen Gaddie, FDIC
Carl Howard, Esq., Citigroup Inc.
Patricia Robinson, Esq., Federal Reserve Board